

Message Text

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PAGE 01 TOKYO 11593 260900Z
ACTION EA-12

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E.O. 11652: N/A
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SUBJECT: JAPANESE ECONOMIC POLICY

1. SUMMARY. PRESS REPORT ALLEGES THAT U.S. HAS ASKED JAPAN TO DECIDE BY TIME OF BONN SUMMIT TO COMPILE SUPPLEMENTARY BUDGET WITH EMPHASIS ON A LARGE TAX REDUCTION; JAPANESE GOVT REPORTEDLY SHOCKED. MOF OFFICIAL DENIES REPORT. SEPARATE PRESS REPORT SAYS GOVT HAS VIRTUALLY ABANDONED ACHIEVING A REDUCTION IN THE CURRENT ACCOUNT SURPLUS TO \$6 BIL IN FY 78. END SUMMARY.

2. FOLLOWING IS THE TEXT OF FRONT-PAGE LEAD ARTICLE IN ENGLISH-LANGUAGE DAILY YOMIURI SAT JUNE 24, 1978. BEGIN TEXT: U.S. SECRETLY ASKS JAPAN TO CUT TAX IN NEW BUDGET. WASHINGTON (BY YOMIURI CORRESPONDENTS JIRO YOKOYAMA AND SHOICHI OIKAWA)--THE U.S. HAS ASKED JAPAN TO COMPILE A SUPPLEMENTARY BUDGET WITH EMPHASIS ON A LARGE-SCALE TAX REDUCTION, ACCORDING TO INFORMED SOURCES.

THE U.S. ALSO ASKED JAPAN TO MAKE ITS DECISION ON THIS ISSUE BY THE TIME OF THE MEETING OF INDUSTRIAL COUNTRIES TO BE HELD IN BONN JULY 16 AND 17.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 TOKYO 11593 260900Z

THE HIGH-HANDED DEMAND BY THE U.S. WAS REVEALED IN A MEETING BETWEEN TOP U.S. AND JAPANESE GOVERNMENTAL OFFICIALS ON JUNE 22, ACCORDING TO THE SOURCES.

THE GOVT REPORTEDLY WAS SHOCKED BY THE FACT THAT THE U.S. HAD MADE A CONCRETE DEMAND WHICH CAN BE CONSTRUED AS

INTERFERENCE IN INTERNAL POLICY MAKING.

THE U.S. DEMAND IS EXPECTED TO INFLUENCE DOMESTIC POLITICS, WHICH IS UNDERGOING TURBULENCE OVER THE COMPILATION OF A SUPPLEMENTARY BUDGET AND THE SUMMONING OF AN EXTRAORDINARY DIET SESSION AND A POSSIBLE DIET DISSOLUTION.

THE ABRUPT DEMAND IS THOUGHT TO BE AIMED AT FORCING JAPAN TO TAKE AN ACTIVE POLICY TO EXPAND DOMESTIC DEMAND AND ATTAIN THE TARGET OF A 7 PCT ECONOMIC GROWTH.

THE GOVT OFFICIALS ALSO THINK THAT THE U.S. IS AIMED ULTIMATELY AT HAVING JAPAN INCREASE IMPORTS FROM THE U.S. IN A BID TO REDUCE JAPAN'S HUGE TRADE SURPLUS IN ITS TRADE WITH THE U.S.

THE OFFICIALS SAID THAT IT WAS IMPOSSIBLE, HOWEVER, TO FULFILL THE DEMAND FOR A LARGE TAX REDUCTION IN VIEW OF THE DEFICIT-RIDDEN CONDITION OF STATE REVENUES, THE SOURCES SAID.

PRIME MINISTER FUKUDA IS TAKING A CAUTIOUS STAND ON SUPPLEMENTARY BUDGET, SAYING HE WOULD DRAW A SUPPLEMENTARY BUDGET IF IT BECAME NECESSARY TO DO SO BUT WOULD MAKE HIS FINAL DECISION IN 2 OR 3 MONTHS AFTER REVIEWING BUSINESS TRENDS. END TEXT.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TOKYO 11593 260900Z

3. JAPANESE-LANGUAGE YOMIURI ALSO CARRIES SIMILAR VERSION OF STORY -- ACCOMPANIED BY DENIAL OF STORY BY FINANCE MINISTRY SOURCE. OTHER PRESS HAS NOT PICKED UP STORY.

4. FRONT-PAGE LEAD ARTICLE IN ENGLISH-LANGUAGE ASAHI EVENING NEWS SAME DAY, SAT JUNE 24, REPORTS THAT GOVT OFFICIALS ARE ALREADY SAYING UNOFFICIALLY AT INTERNATIONAL MEETINGS THAT JAPAN'S CURRENT ACCOUNT SURPLUS FOR FY 78 WILL BE CUT FROM THE LEVEL OF FY 77 (\$14 BIL) TO ABOUT \$9 1/2 BIL, ALTHOUGH AT HOME THE GOVT IS STILL INSISTING OFFICIALLY THAT THE GOAL IS \$6 BIL. THE ARTICLE SAYS THAT THE DISCREPANCY BETWEEN THE GOVT'S STATEMENTS AT HOME AND ABROAD, TOGETHER WITH THE ABANDONMENT OF THE TARGET LESS THAN THREE MONTHS AFTER THE START OF THE FISCAL YEAR, IS LIKELY TO AROUSE CRITICISM BOTH IN JAPAN AND OVERSEAS. THE ARTICLE GOES ON TO SAY THAT A SENIOR FINANCE MINISTRY OFFICIAL INDICATED THERE WAS UNOFFICIAL AGREEMENT AMONG WORKING-LEVEL OFFICIALS OF THE FINANCE AND FOREIGN MINISTRIES AND THE ECONOMIC PLANNING AGENCY THAT THE \$6 BIL FIGURE SHOULD NOT BE USED ANY LONGER AS THE OFFICIAL TARGET. MANSFIELD

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